

EXHIBIT 1

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*ALSO ADMITTED TO PRACTICE IN NJ

** ALSO ADMITTED TO PRACTICE IN NY

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March 1, 2024

Via FedEx and E-Mail

Attn: Mr. Michael Bennett
Attn: Mr. Brian Kahn
Buddy's Franchising and Licensing LLC
4705 South Apopka Vineland Rd., Suite 206
Orlando, Florida 32819
MBennett@buddyrents.com
BKahn@vintcap.com

Attn: Mr. Marc Edelman
c/o Buddy's Franchising and Licensing LLC
c/o Buddy's Newco, LLC
6608 Adamo Drive
Tampa, Florida 33619
MEdelman@buddyrents.com

Peter Siachos, Esq.
Gordon Rees Scully Mansukhani, LLP
1 Battery Park Plaza, 28th Floor
New York, New York 10004
PSiachos@grsm.com

Attn: Mr. Bryant Riley
B. Riley Financial Inc.
11100 Santa Monica Blvd., Suite 800
Los Angeles, California 90025

Attn: Mr. Michael Bennett
Attn: Mr. Brian Kahn
Buddy's Newco, LLC
4705 South Apopka Vineland Rd., Suite 206
Orlando, Florida 32819
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Mr. Andrew M. Laurence
Chief Executive Officer
Franchise Group, Inc.
109 Innovation Court, Suite J
Delaware, Ohio 43015

Mr. Brian Kahn
9935 Lake Louise Drive
Windermere, Florida 34786
BKahn@vintcap.com

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Re: Notice of Default of Franchise Agreements with Buddy's Franchising and Licensing LLC

Notice of Default of Development Agreement Between Buddy Mac Holdings LLC and Buddy's Newco LLC Dated July 2014

Dear Messrs. Bennett, Siachos, Kahn, Riley, Edelman, and Laurence:

This law firm represents Buddy Mac Holdings, LLC and its subsidiaries (collectively, "BMH") with respect to the eighty-four franchise agreements between BMH's subsidiaries and Buddy's Franchising and Licensing LLC ("Buddy's") for the operation of eighty-four Buddy's retail locations throughout the United States (collectively, the "Franchise Agreements") and with respect to the Development Agreement between Buddy's Newco LLC ("Newco") and BMH dated July 2014, as amended ("ADA"). Based on our review of those agreements and our investigation into the actions taken by Buddy's, Newco, and their affiliates, which are well documented and publicly known, it is clear that Buddy's and Newco have materially breached those agreements and engaged in deceptive and unfair trade practices. These and other violations of law result from affiliates of Buddy's and Newco acquiring competitive businesses (e.g., Badcock Furniture, American Freight, FFO Home Furniture, and Sears). As a result, BMH has sustained and continues to sustain damages exceeding **\$100 million**. This letter shall constitute formal notice of Buddy's and Newco's default and demand for Buddy's and Newco to immediately cease and desist from their wrongful conduct and to compensate BMH for damages.

Section 2(d)(ii) of the Franchise Agreements expressly prohibits Buddy's and its affiliates from operating or granting others the right to operate a Competitive Business from either within or outside BMH's territories. Further, Section 2(d)(iii) of the Franchise Agreements obligates Buddy's and its affiliates to direct all customer leads generated within BMH's protected territories to BMH's nearest Buddy's Retail Business operating within the territory.

Similarly, Section 1(b)(iii) of the ADA obligates Newco and its affiliates to make "reasonable efforts to direct sales, orders, deliveries and customer leads from customers and prospective customers originating or destined for delivery in [BMH's] Development Area for products or services offered by a Buddy's Retail Business or a Non-System Store owned or operated by [Buddy's or its affiliates], that are generated by such means or otherwise, to the nearest brick and mortar location operated by [BMH or its affiliates] which is open in [BMH's] Development Area." Additionally, Section 1(b)(iv) of the ADA provides that, if Buddy's or its affiliates "merge[s] with, acquire[s], establish[es] or become[s] associated with any businesses or locations of any kind under other systems and/or other marks, which businesses and locations may offer or sell items, products and services that are the same as or similar to the Approved Products and Services offered at or from [BMH's] Retail Businesses, and which may be located anywhere within or outside the Development Area[,] [BMH] shall have the right of first refusal to purchase

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these competitive businesses within the Development Area at the price [Buddy's or its affiliates] paid as defined by the terms in section 1(c) hereof."

Lastly, both Section 2(e) the Franchise Agreements and Section 1(c) of the ADA expressly grant BMH certain rights in the event that Buddy's, Newco, "or an affiliate of" Buddy's or Newco acquires another business that offers the same or similar products and services as that of Buddy's. These rights are specifically described as follows:

Conversion of Non-System Store in the Territory. If we, or an affiliate of ours, acquires any store operating under different trademarks that sells or leases the same, similar or different products and services as those offered and sold by Buddy's Retail Businesses (each a "**Non-System Store**") within the Territory, we shall promptly thereafter deliver to you a written notice offering you the opportunity to purchase such Non-System Store for the purposes of converting it to a Retail Business (each, a "**Conversion Notice**"). Provided that you are in compliance in all material respects with the provisions of this Agreement and there are no continuing uncured events of default of any material terms of this Agreement of which you have been given notice, or an event which, with the giving of notice or passage of time or both, would become a default, exists under this Agreement, you shall have the option to purchase the Non-System Store, exercisable by providing written notice to us within 30 days after your receipt of such Conversion Notice. The closing of your purchase of the Non-System Store must occur within 30 days after you exercised your purchase option and you must convert the Non-System Store to a Buddy's Retail Business operating under the Trademarks within 180 days after the closing of such purchase.

Buddy's has materially breached its clear and unequivocal contractual obligations under Section 1(b)(iii)–(iv) and 1(c) of the ADA and Section 2(d) and (e) of the Franchise Agreements by: acquiring competitive businesses; failing to direct customers to BMH (and worse, directing customers to competitors owned by affiliates of Buddy's and Newco); failing to honor BMH's right of first refusal to purchase stores within BMH's territories that sell the same or similar products; and failing to deliver to BMH a Conversion Notice. These failures apply to each acquisition by Buddy's and Newco affiliates. Buddy's' affiliate, Franchise Group, Inc. ("FRG"), has publicly admitted to acquiring American Freight and Badcock, among other competitors, within BMH's protected territories, which "sell[] or lease[] the same, similar or different products and services as those offered and sold by Buddy's" and certainly fall within the broad meaning of "Competitive Business[es]" as defined in the Franchise Agreements and ADA.

As to the contract provisions that apply within BMH's territories, Buddy's, Newco, FRG, and other affiliates have committed at least thirty-six territorial infringements as listed in **Exhibit A** attached hereto. To provide just a few glaring examples, FRG acquired an American Freight store less than 1.3 miles from BMH's Tampa, FL location and an American Freight store

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approximately 1.6 miles from BMH's Fort Smith, AR location. To make matters worse, identical products are advertised and sold by Badcock, American Freight, and other affiliated competitors at much lower prices than Buddy's. These facts cannot be disputed nor can the growing negative impact on BMH's businesses. Even worse, BMH has evidence showing that American Freight, Badcock, and FRG have attempted to conceal the identity of their identical products by changing the product names. Adding insult to injury, BMH has evidence that FRG's purpose for diverting Buddy's sales to American Freight and Badcock through lower prices is because of FRG's lucrative contracts with American First Finance.

Even more troubling are the allegations in the recent criminal information and SEC complaint filed against the longtime business partner of Brian Kahn. Mr. Kahn served as the CEO of FRG, Buddy's' parent company, until last month. The DOJ's information identifies Mr. Kahn as a co-conspirator in a multiyear scheme involving various fraudulent transactions and fabricated documents to conceal substantial investment losses to defraud investors of Prophecy Asset Management. The information also identifies Newco as an entity involved in the fraudulent scheme, which is especially concerning because Newco serves as a guarantor under the Franchise Agreements to assume Buddy's duties and obligations in the event that Buddy's fails to perform, as well as the guarantor of leases of certain BMH locations.

The related SEC complaint claims that Mr. Kahn fraudulently leveraged Buddy's assets to allow Prophecy to cover up its trading losses. Additional troubling information has also come to light about B. Riley Financial, Inc.'s ("B. Riley") connection to Mr. Kahn and its aggressive investment practices. Following the recent buyout of FRG, B. Riley now appears to be in a position to exert significant control over FRG as a majority stakeholder. It also appears that Mr. Kahn maintains his control over FRG, despite his resignation, through B. Riley.

The willful and egregious conduct of Buddy's and Newco gives rise to claims for breach of contract, breach of the implied covenant of good faith and fair dealing, fraud, and violations of state and federal statutes regarding deceptive and unfair trade practices, and civil racketeering. Some of those claims create liability for treble damages and attorneys' fees and costs as part of any legal action.

Accordingly, BMH hereby demands compensation for the damages that it has sustained and will continue to sustain as a result of Buddy's and Newco's conduct, in excess of **\$100 million** to date. BMH further demands that Buddy's and Newco **immediately cease and desist from their unlawful conduct**. Please contact us immediately upon receipt of this letter to discuss this matter by no later than **March 8, 2024**. Should we fail to hear from you by then, we will assume that Buddy's and Newco have no interest in resolving this matter. We caution Buddy's and Newco to refrain from any improper efforts to intimidate BMH through threats of default, termination, or any other punitive measures, which BMH is prepared to swiftly address through appropriate legal channels. BMH intends to take the necessary actions to protect its interests under the ADA and

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Franchise Agreements, including but not limited to initiating legal action in court to recover monetary damages. There is no mandatory arbitration in BMH's agreements.

Nothing in this letter shall constitute a waiver by BMH of any of its rights or remedies under applicable law or at equity, all of which are hereby expressly reserved, without limitation, including the right to terminate any Franchise Agreement pursuant to Section 14(c) thereof.

PLEASE GOVERN YOURSELF ACCORDINGLY.

Very truly yours,



ROBERT M. EINHORN
SETH M. SHAPIRO
BRENDA PHANG

cc: Tiffany McMillan-McWaters, Esq.
(via e-mail to tmcwaters@franchisegrp.com)

Territorial Rights Infringement Schedule

Count	<u>LLC</u>	<u>Address</u>	<u>City</u>	<u>State</u>	<u>Zip Code</u>
1	1-Buddy Mac One LLC	1404 W. Gentry Parkway	Tyler	TX	75702
2	12-Buddy Mac Twelve, LLC	1727 Texoma Parkway	Sherman	TX	75090
3	17-Buddy Mac Seventeen, LLC	5234 Rufe Snow Drive, Suite A	North Richland Hills	TX	76180
4	19-Buddy Mac Nineteen, LLC	1337 E. Lindsey	Norman	OK	73071
5	2-Buddy Mac Two LLC	2725 Sherwood Way STE 500	San Angelo	TX	76901
6	21-Buddy Mac Twenty One, LLC	1803 North Harrison	Shawnee	OK	74804
7	31-BMH-TMN 31, LLC	2014 50th Street	Lubbock	TX	79412
8	34-BMH-RCL 34, LLC	3800 Townson Ave	Fort Smith	AR	72901
9	36-BMH-RCL 36, LLC	330 Hwy 62 E	Mountain Home	AR	72653
10	4-Buddy Mac Four LLC	1809 W. Loop 281	Longview	TX	75604
11	41-BMH-RCL 41, LLC	1760 New Boston Road	Texarkana	TX	75501
12	43-BMH-FAN 43, LLC	1413 Mitchell Road	West Plains	MO	65775
13	44-BMH-FAN 44, LLC	2330 Harrison Street	Batesville	AR	72501
14	51-BMH-FAN 51, LLC	8117 Rogers Ave	Fort Smith	AR	72903
15	58-BMH-NEW 58, LLC	1001 NW Sheridan Rd	Lawton	OK	73505
16	61-BMH-NEW 61, LLC	801 N Broadway Avenue	Ada	OK	74820
17	67-BMH-WF TX 67, LLC	2924 Kemp Blvd	Wichita Falls	TX	76308
18	68-BMH-NEW 68, LLC	4301 SW 45th, Suite 400	Amarillo	TX	79109
19	69-BMH-NEW 69, LLC	223-303 W Camp Wisdom Rd	Duncanville	TX	75116
20	73-BMH-TB 73, LLC	10015 N. Nebraska Ave	Tampa	FL	33612
21	9-Buddy Mac Nine, LLC	8849 Menaul Blvd NE	Albuquerque	NM	87110
22	92-BMH-NEW 92, LLC	1349 North Westwood Blvd	Poplar Bluff	MO	63901
23	97-BMH Prime 97, LLC	1710 West 7th St	Joplin	MO	64801
24	BMH - Area Development Agreement		Albuquerque #2	NM	
25	BMH - Area Development Agreement		Amarillo #2	TX	
26	BMH - Area Development Agreement		Oklahoma City #1	OK	
27	BMH - Area Development Agreement		Oklahoma City #2	OK	
28	BMH - Area Development Agreement		Oklahoma City #3	OK	
29	BMH - Area Development Agreement		Grand Prairie	TX	
30	BMH - Area Development Agreement		Mesquite	TX	
31	BMH - Area Development Agreement		Ardmore	OK	
32	BMH - Area Development Agreement		Arlington	TX	
33	BMH - Area Development Agreement		Brandon	FL	
34	BMH - Area Development Agreement		Town & Country	FL	
35	BMH - Area Development Agreement		Ruskin	FL	
36	BMH - Area Development Agreement		Sarasota	FL	